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What is Bitcoin Leverage Trading? Guide For Tiro

What is Bitcoin Leverage Trading

Bitcoin leverage trading, or we can say bitcoin margin trading. In short, is to open trading positions in a leveraged manner by borrowing funds from the exchange.

For example, if we use double leverage to establish a bitcoin position, and bitcoin increases by 10%, then our position will generate 20% return due to double leverage. Without leverage, there is only a 10% return on investment.Margin leverage can also be 25 times or higher. Despite the risk, the same position above will have a return of 250% (instead of 10% without leverage).

How is Bitcoin Leverage Trading Conducted?

In most cases, the exchange provides loans to the traders so they can enlarge their capital to be used for margin trading. This way, traders can open positions with high leverage. The exchange doesn't have many risks since every position has its liquidation price, which is based on the level of leverage.

What is Liquidation Price?

As mentioned above, the cost of the margin position includes the continuous interest pay of the borrowed coins and the cost of building a position with the exchange. As opportunities to earn more increase, so does the risk of losing more.

Our biggest loss is the amount we invested when we opened our position. This level is called the liquidation price, which is the price at which the exchange automatically closes its position. So we will not lose any money lent to us, but only our own money.

For example, if we are talking about standard trading, the leverage is 1:1, and the liquidation price is when the position reaches zero. With the increase of leverage, the liquidation value will be closer and closer to our purchase price. For example, if the value of bitcoin is $1000, we use a 2:1 leverage to buy a bitcoin (bull). The cost of our position is $1000. In addition, we borrowed $1000.

The liquidation price of our position will be slightly higher than $500 – because at this level, we just lost the initial $1000, plus interest and expenses. Margin trading can also be targeted at the market, so we can also use leverage to short.

High leverage risk

The higher the leverage, the closer to the liquidation price. The rule here is to divide 100 by the leverage level to get the percentage until you reach the clearing price. For example, a positive number of 1:25 leverage can be liquidated with only 4% movement (100 divided by 25). In the turbulent cryptocurrency market, 4% can be achieved quickly.

Margin trading is now possible on most exchanges. The advantage of leveraged trading is very obvious, and another important benefit comes from security. Cryptocurrency traders should strive to reduce the number of coins they hold on the exchange. Exchanges are considered a hot target for hackers. In recent years, many exchanges have been hacked, including major exchanges.

Through margin trading, we can open leveraged positions without providing the required bitcoin; In this way, we can hold less money in the exchange account.

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